

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>HESPERIA COMMUNITY SCHOOLS</b>	County <b>NEWAYGO</b>
Audit Date <b>JUNE 30, 2005</b>	Opinion Date <b>AUGUST 26, 2005</b>	Date Accountant Report Submitted to State <b>OCTOBER 21, 2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) <b>Karl L. Drake, CPA</b>			
Street Address <b>3775 Kimmel Road</b>	City <b>Horton</b>	State <b>MI</b>	Zip <b>49246</b>
Accountant Signature 			

# **HESPERIA COMMUNITY SCHOOLS**

**FINANCIAL  
STATEMENTS**

**JUNE 30, 2005**

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# **HESPERIA PUBLIC SCHOOLS**

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## **LIST OF PRINCIPAL INDIVIDUALS**

**JUNE 30, 2005**

### **Board of Education**

Karen Carter	President
Todd Jacobs	Vice President
Gary Slate	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Sharron Tozer	Board Member
Ken Muckey	Board Member
Mike Anderson	Board Member
Sam Manino	Board Member

### **Management**

Jack Mansfield	Superintendent
Patricia Budde	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm	Attorney
Law, Weathers and Richardson	Attorney

3775 Kimmel Road  
Horton, Michigan 49246

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hesperia Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 31 through 33 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education  
Hesperia Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hesperia Community School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.  
Certified Public Accountant

August 26, 2005

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2005. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

### Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hesperia Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Food Service Fund, and Debt Funds, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

*District-wide Financial Statements*

*Fund Financial Statements*

Notes to the Basic Financial Statements

*(Required Supplemental Information)*

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Federal Financial Assistance

### Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



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These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, child care, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

### **Reporting The School District's Most Significant Funds - Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

**Reporting The School District's Fiduciary Responsibilities -The School District As Trustee**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District As A Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2005:

TABLE I	Governmental Activities (In Millions)
<b>ASSETS</b>	
Current and other assets	\$ 2.2
Capital assets - Net of accumulated depreciation	<u>7.7</u>
<b>TOTAL ASSETS</b>	<u>9.9</u>
<b>LIABILITIES</b>	
Current liabilities	2.2
Long-term liabilities	<u>7.8</u>
<b>TOTAL LIABILITIES</b>	<u>10.0</u>
<b>NET ASSETS</b>	
Invested in property and equipment - Net of related debt	-0.3
Restricted	0.2
Unrestricted	<u>0.0</u>
<b>TOTAL NET ASSETS</b>	<u>\$ -0.1</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$-0.1 million at June 30, 2005. Capital assets, net of related debt totaling \$-0.3 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the

acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (zero) was unrestricted.

The zero balance in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

TABLE 2	Governmental Activities	
	(In Millions)	
	2005	2004
<b>REVENUE</b>		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.2
Grants and categoricals	2.4	2.1
General Revenue		
Property taxes	1.3	1.3
State foundation allowance	6.5	7.0
Other	0.1	0.2
<b>TOTAL REVENUE</b>	<b>\$ 10.6</b>	<b>\$ 10.8</b>
<b>FUNCTION/PROGRAM EXPENSES</b>		
Instruction	\$ 6.1	\$ 6.9
Support Services	3.1	3.0
Food Services	0.4	0.5
Athletics	0.2	0.2
Interest on long-term debt	0.4	0.4
Depreciation (unallocated)	0.4	0.5
Community Service	0.2	0.2
<b>TOTAL FUNCTION/PROGRAM EXPENSES</b>	<b>10.8</b>	<b>11.7</b>
<b>INCREASE &lt;DECREASE&gt; IN NET ASSETS</b>	<b>\$ -0.2</b>	<b>\$ -0.9</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$10.8 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$1.3 million in taxes, \$6.5 million in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$0.2 million. Key reasons for the change in net assets were general increases in cost and the repayment of bond principal. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$0.6 million, which is a decrease of \$0.4 million from last year. The primary reasons for the decrease are expenditures and the accounting practice change the district implemented resulting from the memo from MDE, dated October 20, 2004, that stated, "because adult education revenues are restricted to use in adult education programs, excess adult education revenues remaining in the general/school service fund at year-end will need to be recorded as a deferred revenue and used in subsequent years for adult education programs". The General Fund, our principal operating fund, saw the fund balance decrease \$876,542 to \$344,780.

- Our Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately \$20,123.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$100,346. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

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## General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased in total by \$404,752 which is the result of net amount changes to the various revenue accounts. This is a comparison of original budget to final amended budget. The accounts that changed were a decrease in interest earnings, additional revenue in grants, increase in State Aid and increase in federal dollars. Many of the grant amounts are not known when the original budgeted is adopted and then need to be amended after those amounts are known. Actual revenue received compared to final budget amended increased by an overall net amount of \$31,413. This is a result of receiving less in property taxes due to appeals and non-homestead audits, more in local revenues than anticipated, and more in deferred revenue due to the accounting change pursuant to the memo from MDE.
- Budgeted expenditures comparing original budget to final amended budget were increased \$167,066 to cover additional grants received after the beginning of the school year and also to budget for carryover amounts that were not known at the time the original budget was adopted. Review of account codes to be compliant with FID had an effect on budget amounts when the summary functions were reviewed. Actual expenditures compared to final amended budget decreased by \$238,064 when comparing actual to final budget amended. This decrease resulted from a net of the following summarized items:
  - Grant amounts budgeted as if they were to be spent by June 30, 2005
  - Local grant expenditures were under spent by \$42,254
  - Federal grant revenue carryover amount was \$61,503
  - Carryover from the CSR Grant to be spent from July to September 2005 was \$27,885
  - Unspent from the EL Civics Grant and ABE grant was \$4,095
  - Budgeted but not spent in Adult Ed was \$10,626

That would leave a net balance amount of \$91,701 as being under spent exclusive of grants when comparing final budget to actual.

The final estimate of fund balance included in the amended budget presented in June was \$321,689. Actual fund balance was \$344,780. This results in a budget variance of \$23,090 in K-12 funds. The estimate of deferred revenue for Adult Ed was \$381,060 and the actual deferred revenue is \$472,557. This represents a variance of \$92,498 in adult education.

**Capital Asset And Debt Administration****Capital Asset**

At June 30, 2005, the School District had \$13.6 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$157,182 or 1 percent, from last year.

	2005	2004
Land	\$ ---	\$ ---
Buildings	8,770,851	8,770,851
Buses and Other Vehicles	1,192,258	1,362,674
Furniture and Equipment	3,660,108	3,646,874
Total Capital Assets	13,623,217	13,780,399
Less Accumulated Depreciation	5,982,503	5,719,208
Net Capital Assets	\$ 7,640,714	\$ 8,061,191

The additions for this year included school and kitchen equipment. No debt was issued for these additions.

**Debt**

At the end of this year, the School District had \$7.9 million in bonds and notes outstanding versus \$8.3 million in the previous year - a decrease of 4 percent. Those bonds consisted of the following:

	2005	2004
General Obligation Bonds	\$ 7,844,955	\$ 8,099,955
Notes Payable	96,068	183,639
Total	\$ 7,941,023	\$ 8,283,594

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$7.9 million is below the statutorily imposed limit.

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Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors And Next Year's Budgets And Rates**

The elected officials and administration considered many factors when setting the School District's 2005 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent of the February 2005 student count and 75 percent of the September 2005 student count. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will be slightly higher than the estimates used in creating the 2006 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The state is still working on the 2005-06 budget. As of September 9, 2005, the Legislature and Governor announced a budget deal. The \$175 per pupil foundation increase seems solid at this point. This represents an increase of 2.6%. The CPI for July 2004-05 was about 3.2%. We are not keeping up with inflation at this rate, especially if you factor in the rising cost of energy. This increase in the foundation allowance was included in the revenue projections for the district's 2005-06 budget. Keep in mind that there is always the possibility for a mid-term proration. The \$175 per pupil is excellent given the state of the total budget, but a large portion of this increase will be taken up by our district's increase in retirement and health care costs. Retirement has increased from 14.87% in 2004-05 to 16.34% in 2005-06. Health insurance has increased overall approximately 8% for SET and 12.65% for MESSA. We are also in the process of negotiating the HESP (Support Staff) and HEA (Teachers) contracts. The state's revenue picture is still a concern.

### **Contacting The School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hesperia Community School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 96 S. Division Street, Hesperia, Michigan 49421.

# HESPERIA COMMUNITY SCHOOLS

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## STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 673,998
Due From Other Governmental Units	1,502,037
Accounts Receivable	5
Inventories	49,489
Prepaid Expenditures	<u>18,106</u>
Total Current Assets	<u>2,243,635</u>
Non-current Assets	
Capital Assets	13,623,217
Less: Accumulated Depreciation	<u>-5,982,503</u>
Total Non-current Assets	<u>7,640,714</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 9,884,349</b></u>
 <b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts Payable	\$ 255,076
Accrued Salaries and Expenses	857,941
Accrued Interest	281,737
Due to Other Governments	---
Deferred Revenue	514,811
Bonds and Notes Payable, Due within One Year	<u>345,762</u>
Total Current Liabilities	<u>2,255,327</u>
Non-current Liabilities	
Bonds and Notes Payable	7,595,261
Compensated Absences and Severance Pay	<u>170,541</u>
Total Non-current Liabilities	<u>7,765,802</u>
<b>TOTAL LIABILITIES</b>	<u><b>10,021,129</b></u>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	-300,309
Restricted for Debt Service	195,690
Unrestricted	<u>-32,161</u>
<b>TOTAL NET ASSETS</b>	<u><b>-136,780</b></u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 9,884,349</b></u>

See Accompanying Notes to Financial Statements.



# STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

		Program Revenues		Governmental
		Charges For Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses			
<b>FUNCTIONS/PROGRAMS</b>				
Governmental Activities				
Instruction	\$ 6,069,957	\$ 3,540	\$ 2,014,060	\$ -4,052,357
Support Services	3,099,035	142,523	14,847	-2,941,665
Food Services	423,641	138,652	263,828	-21,161
Athletics	220,744	25,992	---	-194,752
Community Services	187,173	23,548	146,346	-17,279
Interest on Long-Term Debt	364,866	---	---	-364,866
Depreciation (Unallocated)	443,437	---	---	-443,437
Total Governmental Activities	<u>\$ 10,808,853</u>	<u>\$ 334,255</u>	<u>\$ 2,439,081</u>	<u>-8,035,517</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				626,396
Property Taxes, Levied for Debt Service				723,051
State of Michigan Aid, Unrestricted				6,470,170
Interest Earnings				16,902
Other				<u>14,903</u>
Total General Revenue				<u>7,851,422</u>
<b>CHANGE IN NET ASSETS</b>				<u>-184,095</u>
NET ASSETS - BEGINNING OF YEAR				674,761
Adjustment - See Note 13				<u>-627,446</u>
<b>NET ASSETS - END OF YEAR</b>				<u><u>\$ -136,780</u></u>

See Accompanying Notes to Financial Statements.

# HESPERIA COMMUNITY SCHOOLS

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	Food Service	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 444,222	\$ 70,306	\$ 159,470	\$ ---	\$ 673,998
Accounts Receivable	---	---	---	---	---
Due from Other Governmental Units	1,502,037	---	---	---	1,502,037
Due from Other Funds	4	19,003	36,220	---	55,227
Inventories	46,622	2,867	---	---	49,489
Prepaid Expenditures	18,106	---	---	---	18,106
TOTAL ASSETS	\$ 2,010,991	\$ 92,176	\$ 195,690	\$ ---	\$ 2,298,857
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 238,237	\$ 16,839	\$ ---	\$ ---	\$ 255,076
Accrued Salaries and Withholdings	857,941	---	---	---	857,941
Due to Other Funds	55,222	---	---	---	55,222
Due to Other Governments	---	---	---	---	---
Deferred Revenue	514,811	---	---	---	514,811
TOTAL LIABILITIES	1,666,211	16,839	---	---	1,683,050
FUND BALANCES					
Reserved for Inventories	46,622	2,867	---	---	49,489
Reserved for Debt Service	---	---	195,690	---	195,690
Unreserved, Designated	33,269	---	---	---	33,269
Unreserved and Undesignated	264,889	---	---	---	264,889
Unreserved and Undesignated, Food Services	---	72,470	---	---	72,470
Unreserved and Undesignated, Athletics	---	---	---	---	---
TOTAL FUND BALANCES	344,780	75,337	195,690	---	615,807
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,010,991	\$ 92,176	\$ 195,690	\$ ---	\$ 2,298,857
TOTAL GOVERNMENTAL FUND BALANCES					\$ 615,807
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets is					\$ 13,623,217
Accumulated Depreciation is					<u>-5,982,503</u>
					<u>7,640,714</u>
Long-term Liabilities are not due and payable in the current period and are not reported in the fund					
Bonds and Notes Payable					-7,941,023
Compensated absences					-170,541
Accrued interest is not included as a liability in governmental funds					<u>-281,737</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES					\$ -136,780

See Accompanying Notes to Financial Statements.

# STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	General	Food Service	Debt Service	Other Non-major Governmental Funds	Totals
<b>REVENUE</b>					
Local Sources	\$ 971,752	\$ 139,690	\$ 724,419	\$ 25,992	\$ 1,861,853
State Sources	7,591,219	32,565	---	---	7,623,784
Federal Sources	907,858	231,263	---	---	1,139,121
Miscellaneous	---	---	---	---	---
<b>TOTAL REVENUE</b>	<b>9,470,829</b>	<b>403,518</b>	<b>724,419</b>	<b>25,992</b>	<b>10,624,758</b>
<b>EXPENDITURES</b>					
Current					
Instruction	6,069,957	---	---	220,744	6,290,701
Supporting Services	3,157,478	423,641	---	---	3,581,119
Community Services	187,173	---	---	---	187,173
Debt Service	87,605	---	824,765	---	912,370
Capital Outlay	22,960	---	---	---	22,960
<b>TOTAL EXPENDITURES</b>	<b>9,525,173</b>	<b>423,641</b>	<b>824,765</b>	<b>220,744</b>	<b>10,994,323</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-54,344</b>	<b>-20,123</b>	<b>-100,346</b>	<b>-194,752</b>	<b>-369,565</b>
<b>OTHER FINANCING SOURCES &lt;USES&gt;</b>					
Operating Transfers In	---	---	---	194,752	194,752
Operating Transfers Out	-194,752	---	---	---	-194,752
<b>TOTAL OTHER FINANCING SOURCES &lt;USES&gt;</b>	<b>-194,752</b>	<b>---</b>	<b>---</b>	<b>194,752</b>	<b>---</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-249,096</b>	<b>-20,123</b>	<b>-100,346</b>	<b>---</b>	<b>-369,565</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>1,221,322</b>	<b>95,460</b>	<b>296,036</b>	<b>---</b>	<b>1,612,818</b>
Adjustment - See Note 13	-627,446	---	---	---	-627,446
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 344,780</b>	<b>\$ 75,337</b>	<b>\$ 195,690</b>	<b>\$ ---</b>	<b>\$ 615,807</b>

See Accompanying Notes to Financial Statements.

# **HESPERIA COMMUNITY SCHOOLS**

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## **RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2005**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ -369,565</b>
Amounts reported for governmental activities in the statement of activities are different because:	
- Change in compensated absences are not reflected in the government funds report	58,443
- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	-443,437
Capital Outlay	<u>22,960</u>
	-420,477
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	204,934
- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>342,570</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ -184,095</u></u></b>

See Accompanying Notes to Financial Statements.

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# STATEMENT OF FIDUCIARY NET ASSETS

## FIDUCIARY FUNDS

JUNE 30, 2005

	<u>Agency Fund- Student Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 61,405
Accounts Receivable	<u>---</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 61,405</u></u>
 <b>LIABILITIES</b>	
Due to Other Funds	\$ 4
Due to Others	4,863
Due to Student Groups	<u>56,538</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 61,405</u></u>

See Accompanying Notes to Financial Statements.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

**A. REPORTING ENTITY:** Hesperia Community School is located in Newaygo and Oceana Counties in Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

### **B. BASIS OF PRESENTATION**

#### **District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

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by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**District-Wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Fund Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

## GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1999 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

#### FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

**C. BUDGETS AND BUDGETARY ACCOUNTING:** The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

**D. PROPERTY TAXES:** Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

**E. INVENTORIES:** Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

**F. CASH EQUIVALENTS:** The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

**G. FINANCIAL INSTRUMENTS:** The School does not require collateral to support financial instruments subject to credit risk.



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**H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES:** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

**I. FUND EQUITY:** Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

**J. CAPITAL ASSETS:** Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

**K. LONG-TERM OBLIGATIONS:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## NOTES TO FINANCIAL STATEMENTS

**L. TOTAL COLUMNS ON COMBINED STATEMENTS:** Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**M. STATE CATEGORICAL REVENUE:** The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

**N. RISK MANAGEMENT:** The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**O. ESTIMATES:** The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

**A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS:** The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

**B. TYPES OF DEPOSITS AND INVESTMENTS:** The School District maintains all of its cash deposits in five financial institutions. At June 30, 2005, the book value of the School District's deposits was \$735,403 and the bank balance was \$874,216. Of the bank balance, \$126,277 was covered by federal depository insurance and \$747,939 was uninsured and uncollateralized.

**CASH EQUIVALENTS:** There is \$3,049 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	<u>Market Value</u>
<u>\$ 3,049</u>	<u>\$ 3,049</u>

Total Cash:

Petty Cash	\$ 200
Deposits in Financial Institutions	732,154
Deposits in MLAF Account	<u>3,049</u>
	<u><u>\$ 735,403</u></u>

### NOTE 3 - INVENTORY

The \$46,622 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2005.

There is \$2,867 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2005, was \$49,489.

# HESPERIA COMMUNITY SCHOOLS

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2005, is comprised of the following:

#### General Fund

State of Michigan - State Aid	\$ 1,352,530
- Title I	77,611
- Title II-A	17,124
- English Literacy	7,035
- Adult Education	9,939
- Comprehensive School Reform	6,852
- Title V	1,459
- Technology Literacy Challenge	1,928
Newago Public Schools - MECEP	20,510
Other	<u>7,049</u>
<u>Total Due From Other Governmental Units</u>	<u><u>\$ 1,502,037</u></u>

### NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2005, consisted of the following:

#### Due To:

General	\$ 4
Food Service	19,003
1999 Debt	<u>36,220</u>
	<u><u>\$ 55,227</u></u>

#### Due From:

Student Activities	\$ 4
General	19,003
General	<u>36,220</u>
	<u><u>\$ 55,227</u></u>

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## NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Assets not being depreciated:				
Land	\$ ---	\$ ---	\$ ---	\$ ---
Capital assets being depreciated:				
Building and building improvements	8,770,851	---	---	8,770,851
Buses and other vehicles	1,362,674	---	170,416	1,192,258
Furniture and equipment	3,646,874	22,960	9,726	3,660,108
Subtotal	13,780,399	22,960	180,142	13,623,217
Accumulated depreciation:				
Building and building improvements	2,152,317	164,666	---	2,316,983
Buses and other vehicles	978,174	95,867	170,417	903,624
Furniture and equipment	2,588,717	182,904	9,725	2,761,896
Subtotal	5,719,208	443,437	180,142	5,982,503
Net capital assets being depreciated	8,061,191	-420,477	---	7,640,714
Net capital assets	\$ 8,061,191	\$ -420,477	\$ ---	\$ 7,640,714

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

## NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2005, of \$558,284 represents the unpaid portion of teacher contracts for the 2004-05 school year. On these salaries there are also fringe benefits payable at year-end totaling \$299,657.

## NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2005, long-term debt changed as follows:

# HESPERIA COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 - LONG-TERM DEBT (CONTINUED)

	Balance 7/1/04	Additional Debt	2004-05 Payments	Balance 6/30/05
Durant Building Project	\$ 67,144	\$ ---	\$ 10,842	\$ 56,302
Durant Bond Issue	82,522	---	---	82,522
1999 Bond Issue	6,710,000	---	255,000	6,455,000
Bus and Boiler Notes	116,494	---	76,728	39,766
School Bond Loan	1,307,433	---	---	1,307,433
	\$ 8,283,593	\$ ---	\$ 342,570	\$ 7,941,023
Teacher Buy-Outs	180,000	25,000	85,000	120,000
Severance Pay	11,190	990	---	12,180
Compensated Absences	37,794	567	---	38,361
	<u>\$ 8,512,577</u>	<u>\$ 26,557</u>	<u>\$ 427,570</u>	<u>\$ 8,111,564</u>

Amounts needed over the next five years are for debt principal payments are as follows:

	Durant Bonds	1999 Refunding Bonds	School Bond Loan	Bus and Boiler Notes	Other	Durant Building Project	Total
2005-06	\$ 29,581	\$ 265,000	\$ ---	\$ 39,766	\$ 110,541	\$ 11,415	\$ 456,303
2006-07	6,548	280,000	---	---	30,000	12,014	328,562
2007-08	6,862	300,000	---	---	30,000	12,613	349,475
2008-09	7,189	315,000	---	---	---	13,212	335,401
2009-2010	7,531	335,000	---	---	---	7,048	349,579
2010-Maturity	24,811	4,960,000	1,307,433	---	---	---	6,292,244
	<u>\$ 82,522</u>	<u>\$ 6,455,000</u>	<u>\$ 1,307,433</u>	<u>\$ 39,766</u>	<u>\$ 170,541</u>	<u>\$ 56,302</u>	<u>\$ 8,111,564</u>

**A. 1999 REFUNDING BONDS:** The bonds are dated February 3, 1999, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 1999, and ending May 1, 2025. Interest rates vary from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. The remaining bonds payable at June 30, 2005, were \$6,455,000.

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**B. BUS AND BOILER INSTALLMENT PURCHASE AGREEMENTS:** The School District has the following notes resulting from the purchase of buses and boilers.

1. This note was executed February 27, 2002, for the purchase of two buses and the purchase and installation of a new boiler. The note requires 5 annual payments of \$41,037.74, which include principal and interest, beginning June 30, 2002 and concluding June 30, 2006. Interest is calculated at 3.29%. The balance due on this note at June 30, 2005 was \$39,766.
2. This note was executed October 25, 2002 for the purchase of 2 buses. The note requires 3 annual payments of \$39,327.34, which include principal and interest, beginning June 30, 2003 and concluding June 30, 2005. Interest is calculated at 2.78%. The balance due on this note at June 30, 2005 was \$0.

**C. COMPENSATED ABSENCES:** Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of \$38,361 unused vacation leave exists at June 30, 2005.

**D. SCHOOL BOND LOANS:** The School District approved borrowing from the School Bond Loan Fund to help pay the 1995 School Building and Site bond loan payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments. The loans are dated March 18, 1996. Repayment of the debt is not expected to start until the fiscal year ended June 30, 2007. Interest will be calculated at a variable rate, currently 3.125%. Total amount outstanding at June 30, 2005, was \$1,307,433.

**E. DURANT BONDS:** The bonds are dated November 24, 1998, with principal and interest due annually on May 15 beginning in 1999 and ending in 2013. The proceeds from these bonds were used for classroom construction. Interest is at 4.761353%. Bond payments are funded by state-aid revenue. The balance due at June 30, 2005 was \$82,522.

**F. TEACHER BUY-OUT:** The School District approved the buy-out of three staff people during the fiscal year as a retirement incentive. The maximum to be paid is \$10,000 for each person. The people have an option on when the payment is to be made. Total buy-outs payable at June 30, 2005, was \$120,000.

**G. SEVERANCE PAY:** After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$30 for each year of service. Total severance pay payable at June 30, 2005, was \$12,180.

**H. DURANT BUILDING PROJECT:** The School District borrowed \$110,000 for the completion of classroom construction on January 28, 2000. Under the terms of this agreement twenty semi-annual payments of principal and interest will be made on June 30 and December 31 through December 31, 2009. Payments are \$7,096.94 and include interest at 5.2%. The balance due at June 30, 2005, was \$56,302.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2005, the rate was 14.87%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2005, the School District contributed \$846,872 to the Retirement System, which is 14.87% of current fiscal year covered compensation of \$5,834,336. The rate for the current contract year is 14.87%, which the School District paid on all covered compensation. Employees contributed an additional \$184,065 or 3.83% of eligible wages of \$4,800,129. Total wages of the district totaled \$5,950,160.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2003, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$44.8 billion.



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The total pension benefit obligation has increased by \$2.9 billion from September 30, 2002 to September 30, 2003.

The System's net assets available for benefits on that date (valued at market) were \$38.7 billion leaving an unfunded actuarial accrued liability of \$6.1 billion. Ten-year historical trend information is presented in the System's September 30, 2004, comprehensive annual financial report.

#### **NOTE 10 - BUDGETARY ACCOUNTING**

During the year ended June 30, 2005, the School incurred expenditures that were in excess of the amounts appropriated in the following:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Debt Service	\$ 565,648	\$ 824,765	\$ 259,117
Food Service	395,835	423,641	27,806
General Fund			
Administration	549,939	568,621	18,682
Operations	1,041,551	1,042,993	1,442
Debt Service	87,571	87,605	34

#### **NOTE 11 - FUND BALANCE**

Components of Fund Balance at June 30, 2005, are as follows:

- A) \$46,622 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$2,867 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- C) A portion of the unreserved fund balance is designated for anticipated major expenses. The Board has elected to set aside monies as follows:

Track Replacement	\$ 20,000
Band Uniforms	<u>13,269</u>
	<u>\$ 33,269</u>

- D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2005, Unreserved General Fund Balance of \$264,889 compares to June 30, 2004, Unreserved General Fund Balance of \$511,777.

# HESPERIA COMMUNITY SCHOOLS

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 12 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On February 3, 1999, Hesperia Community Schools issued \$6,895,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.3% to 5.0% to advance refund \$6,580,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 6.6%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds are considered to be defeased. The liability for those bonds has been removed from the financial statements.

### NOTE 13 - CHANGE IN ACCOUNTING METHOD

In prior years, monies received for specific programs and not spent were recorded as a reserved part of fund balance. Beginning in this fiscal year, these amounts are recorded as a liability - deferred revenue. The effect of this change is being recorded as an adjustment to the beginning fund balance.

The details of this change are as follows:

Adult Education	\$ 569,864
At Risk	23,549
Local Grants	<u>34,033</u>
Total Adjustment	<u>\$ 627,446</u>

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## **REQUIRED SUPPLEMENTAL INFORMATION**

# HESPERIA COMMUNITY SCHOOLS

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUES</b>				
Local Sources	\$ 816,903	\$ 976,857	\$ 971,752	\$ -5,105
State Sources	7,538,302	7,461,880	7,591,219	129,339
Federal Sources	679,459	1,000,679	907,858	-92,821
Miscellaneous	---	---	---	---
<b>TOTAL REVENUES</b>	<b>9,034,664</b>	<b>9,439,416</b>	<b>9,470,829</b>	<b>31,413</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic Programs	4,146,390	4,350,644	4,242,205	108,439
Added Needs	1,957,829	1,624,714	1,623,629	1,085
Adult/Continuing Education	400,133	242,749	204,123	38,626
Supporting Services				
Pupil	258,191	363,352	354,852	8,500
Instructional Staff	295,272	454,571	386,809	67,762
Administration	647,023	549,939	568,621	-18,682
Business Services	237,448	267,982	258,364	9,618
Operations	884,166	1,041,551	1,042,993	-1,442
Transportation	575,388	580,469	568,799	11,670
Community Services	106,235	199,084	187,173	11,911
Debt Service	83,705	87,571	87,605	-34
Other Uses - Operating Transfers	199,143	195,363	194,752	611
<b>TOTAL EXPENDITURES</b>	<b>9,790,923</b>	<b>9,957,989</b>	<b>9,719,925</b>	<b>238,064</b>
<b>EXCESS OF REVENUES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>-756,259</b>	<b>-518,573</b>	<b>-249,096</b>	<b>269,477</b>
BUDGETARY FUND BALANCE - JULY 1, 2004	1,221,322	1,221,322	1,221,322	---
Adjustment - See Note 13	---	---	-627,446	-627,446
<b>BUDGETARY FUND BALANCE - JUNE 30, 2005</b>	<b>\$ 465,063</b>	<b>\$ 702,749</b>	<b>\$ 344,780</b>	<b>\$ -357,969</b>

# HESPERIA COMMUNITY SCHOOLS

## BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUES</b>				
Local Sources	\$ 163,840	\$ 141,199	\$ 139,690	\$ -1,509
State Sources	34,000	33,974	32,565	-1,409
Federal Sources	206,650	232,458	231,263	-1,195
Miscellaneous	---	---	---	---
<b>TOTAL REVENUES</b>	<b>404,490</b>	<b>407,631</b>	<b>403,518</b>	<b>-4,113</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	414,075	395,835	423,641	-27,806
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Other Uses - Operating Transfers	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>414,075</b>	<b>395,835</b>	<b>423,641</b>	<b>-27,806</b>
<b>EXCESS OF REVENUES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>-9,585</b>	<b>11,796</b>	<b>-20,123</b>	<b>-31,919</b>
<b>BUDGETARY FUND BALANCE - JULY 1, 2004</b>	<b>95,460</b>	<b>95,460</b>	<b>95,460</b>	<b>---</b>
<b>BUDGETARY FUND BALANCE - JUNE 30, 2005</b>	<b>\$ 85,875</b>	<b>\$ 107,256</b>	<b>\$ 75,337</b>	<b>\$ -31,949</b>

# HESPERIA COMMUNITY SCHOOLS

## BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUES</b>				
Local Sources	\$ 725,208	\$ 725,208	\$ 724,419	\$ -789
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Miscellaneous	---	---	---	---
<b>TOTAL REVENUES</b>	<b>725,208</b>	<b>725,208</b>	<b>724,419</b>	<b>-789</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	565,648	565,648	824,765	-259,117
Other Uses - Operating Transfers	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>565,648</b>	<b>565,648</b>	<b>824,765</b>	<b>-259,117</b>
<b>EXCESS OF REVENUES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	159,560	159,560	-100,346	-259,906
<b>BUDGETARY FUND BALANCE - JULY 1, 2004</b>	296,036	296,036	296,036	---
<b>BUDGETARY FUND BALANCE - JUNE 30, 2005</b>	<b>\$ 455,596</b>	<b>\$ 455,596</b>	<b>\$ 195,690</b>	<b>\$ -259,906</b>

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## **OTHER SUPPLEMENTAL INFORMATION**

### **GENERAL FUND**

# HESPERIA COMMUNITY SCHOOLS

## GENERAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 654,789	\$ 324,330	\$ -30,459
Other Taxes	2,066	2,066	---
Interest and Penalties - Delinquent Taxes	---	---	---
Tuition, Patrons	---	---	---
Sale of School Property	2,378	2,378	---
Contributions from Private Sources	154,278	146,346	-7,932
Interest Earned	13,000	14,496	1,496
Community Service	22,130	23,548	1,418
Transportation	37,500	50,887	13,387
Reimbursements	81,676	91,636	9,960
Other	5,500	12,525	7,025
Drivers Education Fees	3,540	3,540	---
TOTAL REVENUE FROM LOCAL SOURCES	976,857	971,752	-5,105
STATE SOURCES			
Non Plaintiff Durant Settlement	12,917	12,917	---
State Aid	6,470,170	6,470,170	---
Driver Education	2,342	2,342	---
Special Education	463,207	463,207	---
Adult Education	164,150	269,963	105,813
Advances and Accelerated	162	162	---
Court Placed	32,983	32,983	---
At Risk	315,240	338,766	23,526
Vocational Education	709	709	---
TOTAL REVENUE FROM STATE SOURCES	\$ 7,461,880	\$ 7,591,219	\$ 129,339



	Budget	Actual	Favorable <Unfavorable>
<b>FEDERAL SOURCES</b>			
Teacher Training and Recruiting	\$ 101,815	\$ 88,849	\$ -12,966
Title I	368,374	327,822	-40,552
Adult Basic Education	58,725	56,972	-1,753
Title V	11,808	3,823	-7,985
IDEA	225,000	225,000	---
Technology Literacy Challenge	7,928	7,928	---
ESL Literacy	27,000	26,296	-704
Schools and Roads	12,000	11,024	-976
Comprehensive School Reform	188,029	160,144	-27,885
<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<b>1,000,679</b>	<b>907,858</b>	<b>-92,821</b>
<b>TOTAL REVENUE AND INCOMING TRANSFERS</b>	<b>\$ 9,439,416</b>	<b>\$ 9,470,829</b>	<b>\$ 31,413</b>
<b>EXPENDITURES</b>			
<b>Instruction</b>			
<b>BASIC PROGRAMS</b>			
Elementary School	\$ 1,435,290	\$ 1,391,171	\$ 44,119
Middle School	1,376,359	1,337,179	39,180
High School	1,538,995	1,513,855	25,140
<b>TOTAL BASIC PROGRAMS</b>	<b>4,350,644</b>	<b>4,242,205</b>	<b>108,439</b>
<b>ADDED NEEDS</b>			
Special Education	1,063,381	1,068,200	-4,819
Compensatory Education	560,226	554,674	5,552
Vocational Education	1,107	755	352
<b>TOTAL ADDED NEEDS</b>	<b>\$ 1,624,714</b>	<b>\$ 1,623,629</b>	<b>\$ 1,085</b>

# HESPERIA COMMUNITY SCHOOLS

## GENERAL FUND STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Budget	Actual	Favorable <Unfavorable>
<b>EXPENDITURES (CONTINUED)</b>			
<b>Instruction - Continued</b>			
ADULT/CONTINUING EDUCATION			
Adult Basic Education	\$ 224,310	\$ 185,918	\$ 38,392
High School Completion	18,439	18,205	234
TOTAL ADULT/CONTINUING EDUCATION	242,749	204,123	38,626
<b>Total Instruction</b>	6,218,107	6,069,957	148,150
<b>Supportive Services</b>			
PUPIL			
Guidance	303,069	297,985	5,084
Health Services	33,342	32,021	1,321
Social Work Services	26,941	24,846	2,095
TOTAL PUPIL	363,352	354,852	8,500
INSTRUCTIONAL STAFF			
Improvement of Instruction	173,017	145,680	27,337
Educational Media Services	125,241	116,748	8,493
Supervision and Direction of Instruction	156,313	124,381	31,932
TOTAL INSTRUCTIONAL STAFF	454,571	386,809	67,762
ADMINISTRATION			
Board of Education	92,551	105,112	-12,561
Executive Administration	160,716	161,590	-874
Principals Offices	293,722	299,005	-5,283
Other School Administration	2,950	2,914	36
TOTAL ADMINISTRATION	\$ 549,939	\$ 568,621	\$ -18,682

	Budget	Actual	Favorable <Unfavorable>
<b>BUSINESS SERVICES</b>			
Fiscal Services	\$ 162,643	\$ 161,275	\$ 1,368
Internal Services	6,500	5,257	1,243
Other Business Services	98,839	91,832	7,007
Operating Building Services	865,361	869,222	-3,861
Security Services	13,045	13,044	1
Pupil Transportation Services	580,469	568,799	11,670
Staff/Personnel Services	738	842	-104
Information Management Services	162,407	159,885	2,522
<b>TOTAL BUSINESS SERVICES</b>	<b>1,890,002</b>	<b>1,870,156</b>	<b>19,846</b>
<b>Total Supportive Services</b>	<b>3,257,864</b>	<b>3,180,438</b>	<b>77,426</b>
<b>Community Services</b>			
Community Recreation	33,539	18,827	14,712
Custody and Care of Children	61,086	64,265	-3,179
Other Community Services	104,459	104,081	378
<b>Total Community Services</b>	<b>199,084</b>	<b>187,173</b>	<b>11,911</b>
<b>Debt Service</b>			
Durant Loan	10,842	10,842	---
Bus Loans	61,977	62,012	-35
Other Loans	14,752	14,751	1
<b>Total Debt Service</b>	<b>87,571</b>	<b>87,605</b>	<b>-34</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 9,762,626</b>	<b>\$ 9,525,173</b>	<b>\$ 237,453</b>
<b>EXCESS REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-323,210</b>	<b>-54,344</b>	<b>268,866</b>
<b>OTHER FINANCING SOURCES &lt;USES&gt;</b>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers <Out>	-195,363	-194,752	611
<b>TOTAL OTHER FINANCING SOURCES&lt;USES&gt;</b>	<b>-195,363</b>	<b>-194,752</b>	<b>611</b>
<b>EXCESS REVENUE AND OTHER FINANCING SOURCES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>\$ -518,573</b>	<b>-249,096</b>	<b>\$ 269,477</b>
FUND BALANCE - JULY 1, 2004		1,221,322	
Adjustment - See Note 13		<b>-627,446</b>	
<b>FUND BALANCE - JUNE 30, 2005</b>		<b>\$ 344,780</b>	

**SPECIAL REVENUE FUNDS**

**SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET**

**JUNE 30, 2005**

	Food Service Fund	Athletic Fund	Totals
<b>ASSETS</b>			
Cash In Bank	\$ 70,306	\$ ---	\$ 70,306
Due From Other Governmental Units	---	---	---
Due From Other Funds	19,003	---	19,003
Prepaid Expenses	---	---	---
Inventory	2,867	---	2,867
<b>TOTAL ASSETS</b>	<b>\$ 92,176</b>	<b>\$ ---</b>	<b>\$ 92,176</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Due to Other Funds	\$ ---	\$ ---	\$ ---
Accounts Payable	16,839	---	16,839
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
<b>TOTAL LIABILITIES</b>	<b>16,839</b>	<b>---</b>	<b>16,839</b>
<b>FUND EQUITY</b>			
Fund Balance - Reserved for Inventory	2,867	---	2,867
Fund Balance - Unreserved	72,470	---	72,470
<b>TOTAL FUND EQUITY</b>	<b>75,337</b>	<b>---</b>	<b>75,337</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 92,176</b>	<b>\$ ---</b>	<b>\$ 92,176</b>

# HESPERIA COMMUNITY SCHOOLS

## SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
<b>REVENUE</b>			
Food Services			
Hot Lunch Receipts - Students	\$ 62,000	\$ 61,656	\$ -344
- Adults	3,452	3,451	-1
- Ala Carte	54,000	53,435	-565
- Milk	529	528	-1
Breakfast	7,200	7,006	-194
State Aid	33,974	32,565	-1,409
Federal Aid	215,808	215,854	46
Federal USDA Commodities in Kind	16,650	15,409	-1,241
Other Income	13,018	12,576	-442
Interest Income	1,000	1,038	38
Athletic Activities			
Admission to Games	---	---	---
<b>TOTAL REVENUE</b>	<b>407,631</b>	<b>403,518</b>	<b>-4,113</b>
<b>EXPENDITURES</b>			
Salaries	131,801	135,812	-4,011
Fringe Benefits	70,882	70,738	144
Professional Services	21,050	16,781	4,269
Food and Supplies	146,345	169,711	-23,366
Travel and Conferences	---	---	---
Miscellaneous	2,300	1,469	831
Telephone	700	520	180
Postage	2,000	1,925	75
Repairs	900	7,028	-6,128
Utilities and Waste	9,500	9,300	200
Capital Outlay	10,357	10,357	---
<b>TOTAL EXPENDITURES</b>	<b>\$ 395,835</b>	<b>\$ 423,641</b>	<b>\$ -27,806</b>

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 62,000	\$ 61,656	\$ -344
---	---	---	3,452	3,451	-1
---	---	---	54,000	53,435	-565
---	---	---	529	528	-1
---	---	---	7,200	7,006	-194
---	---	---	33,974	32,565	-1,409
---	---	---	215,808	215,854	46
---	---	---	16,650	15,409	-1,241
---	---	---	13,018	12,576	-442
---	---	---	1,000	1,038	38
27,000	25,992	-1,008	27,000	25,992	-1,008
<b>27,000</b>	<b>25,992</b>	<b>-1,008</b>	<b>434,631</b>	<b>429,510</b>	<b>-5,121</b>
136,722	132,844	3,878	268,523	268,656	-133
32,329	32,852	-523	103,211	103,590	-379
13,500	15,475	-1,975	34,550	32,256	2,294
4,547	3,944	603	150,892	173,655	-22,763
11,200	12,074	-874	11,200	12,074	-874
18,100	18,116	-16	20,400	19,585	815
---	---	---	700	520	180
---	---	---	2,000	1,925	75
2,500	1,974	526	3,400	9,002	-5,602
---	---	---	9,500	9,300	200
3,465	3,465	---	13,822	13,822	---
<b>\$ 222,363</b>	<b>\$ 220,744</b>	<b>\$ 1,619</b>	<b>\$ 618,198</b>	<b>\$ 644,385</b>	<b>\$ -26,187</b>

# HESPERIA COMMUNITY SCHOOLS

## SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	\$ 11,796	\$ -20,123	\$ -31,919
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ 11,796</u>	-20,123	<u>\$ -31,919</u>
FUND BALANCE - BEGINNING OF YEAR		<u>95,460</u>	
FUND BALANCE - END OF YEAR		<u>\$ 75,337</u>	





**DEBT RETIREMENT FUNDS**

**DEBT RETIREMENT FUNDS**  
**COMBINING BALANCE SHEET**

**JUNE 30, 2005**

	1995 Debt	1999 Debt	Durant	Totals
<b>ASSETS</b>				
Cash in Bank	\$ 5,956	\$ 153,514	\$ ---	\$ 159,470
Due from other Funds	---	38,472	---	38,472
Accounts Receivable	---		---	---
<b>TOTAL ASSETS</b>	<b>\$ 5,956</b>	<b>\$ 191,986</b>	<b>\$ ---</b>	<b>\$ 197,942</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	2,252	---	---	2,252
Due to Other Governments	---	---	---	---
<b>TOTAL LIABILITIES</b>	<b>2,252</b>	<b>---</b>	<b>---</b>	<b>2,252</b>
<b>FUND EQUITY</b>				
Fund Balance	3,704	191,986	---	195,690
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 5,956</b>	<b>\$ 191,986</b>	<b>\$ ---</b>	<b>\$ 197,942</b>

# HESPERIA COMMUNITY SCHOOLS

## DEBT RETIREMENT FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	1995		
	Budget	Actual	Favorable <Unfavorable>
<b>REVENUE</b>			
Current Taxes	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	---	---	---
Earned Interest	---	38	38
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>38</b>	<b>38</b>
<b>EXPENDITURES</b>			
Principal on Bonds	---	---	---
Interest on Bonds	---	---	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	---	400	-400
<b>TOTAL EXPENDITURES</b>	<b>---</b>	<b>400</b>	<b>-400</b>
<b>EXCESS REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>---</b>	<b>-362</b>	<b>-362</b>
<b>OTHER FINANCING SOURCES</b>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>EXCESS REVENUE AND OTHER SOURCES OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>\$ ---</b>	<b>-362</b>	<b>\$ -362</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>		<b>4,066</b>	
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 3,704</b>	

1999			Totals		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 724,708	\$ 723,051	\$ -1,657	\$ 724,708	\$ 723,051	\$ -1,657
---	---	---	---	---	---
---	---	---	---	---	---
500	1,330	830	500	1,368	868
---	---	---	---	---	---
---	---	---	---	---	---
<b>725,208</b>	<b>724,381</b>	<b>-827</b>	<b>725,208</b>	<b>724,419</b>	<b>-789</b>
255,000	255,000	---	255,000	255,000	---
310,648	310,648	---	310,648	310,648	---
---	258,417	-258,417	---	258,417	-258,417
---	300	-300	---	700	-700
<b>565,648</b>	<b>824,365</b>	<b>-258,717</b>	<b>565,648</b>	<b>824,765</b>	<b>-259,117</b>
159,560	-99,984	-259,544	159,560	-100,346	-259,906
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
<b>\$ 159,560</b>	-99,984	<b>\$ -259,544</b>	<b>\$ 159,560</b>	-100,346	<b>\$ -259,906</b>
291,970			296,036		
<b>\$ 191,986</b>			<b>\$ 195,690</b>		

**AGENCY FUNDS**

**JUNE 30, 2005**

Cash in Bank	\$ 61,405
Due From General Fund	---
<b>TOTAL ASSETS</b>	<b>\$ 61,405</b>

Due to General Fund	\$ 4
Due to Students Groups	56,538
Due to Others	<u>4,863</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 61,405</u></b>

# HESPERIA COMMUNITY SCHOOLS

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## AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FISCAL YEAR ENDED JUNE 30, 2005

	Balance 6/30/04	Receipts	Disbursements	Balance 6/30/05
<b>ASSETS</b>				
Cash	\$ 64,904	\$ 106,254	\$ 109,753	\$ 61,405
Due from General Fund	---	---	---	---
<b>TOTAL ASSETS</b>	<b>\$ 64,904</b>	<b>\$ 106,254</b>	<b>\$ 109,753</b>	<b>\$ 61,405</b>
<b>LIABILITIES</b>				
Due to General Fund	\$ 4	\$ ---	\$ ---	\$ 4
Due to Others				
Community Education	4,813	1,403	1,427	4,789
Bus Drivers	129	---	55	74
Total Due to Others	4,942	1,403	1,482	4,863
Student Groups				
High School Internal	11,641	1,270	3,719	9,192
Middle School Internal	1,218	1,180	---	2,398
Elementary Internal	690	1,168	---	1,858
Central Office Internal	46,409	101,233	104,552	43,090
Total Student Groups	59,958	104,851	108,271	56,538
<b>TOTAL LIABILITIES</b>	<b>\$ 64,904</b>	<b>\$ 106,254</b>	<b>\$ 109,753</b>	<b>\$ 61,405</b>



# AGENCY FUNDS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

**FISCAL YEAR ENDED JUNE 30, 2005**

ACTIVITY	Balance 6/30/04	Receipts	Disbursements	Balance 6/30/05
Band	\$ 5,861	\$ 18,616	\$ 17,894	\$ 6,583
Baseball Club	149	2,331	2,469	11
Bolen's Kids	279	---	---	279
Choir	679	---	---	679
Cheerleaders	614	808	932	490
Color Guard	47	590	---	637
Class of 2004	1,382	---	1,382	---
Class of 2005	362	1,201	1,431	132
Class of 2006	1,727	2,594	3,259	1,062
Class of 2007	1,644	591	583	1,652
Class of 2008	709	2,229	1,050	1,888
Class of 2009	598	8,109	7,721	986
Class of 2010	408	8,082	8,107	383
Class of 2011	41	11,453	11,024	470
Class of 2012	---	1,206	837	369
8 <sup>th</sup> Grade Reserve	1,000	---	200	800
6 <sup>th</sup> Grade Reserve	1,300	344	558	1,086
Community Ed. Art Club	199	---	90	109
Cross Country	392	1,979	2,257	114
Drama	1,142	---	55	1,087
Elementary Art Mural	207	---	---	207
Elementary Playground	268	---	---	268
Elementary Student Council	30	---	---	30
Elementary Yearbook	223	---	---	223
ESL Student Council	108	---	---	108
Experiential Education	45	---	---	45
Forensics	863	---	---	863
Girls Varsity Basketball	224	---	---	224
Girls Youth Basketball	4	---	---	4
Golf Team	364	8,071	7,700	735
Hesperia Alternative Ed.	135	---	50	85
Elementary School Store	230	489	485	234
M.S. Combined Fund Raising	2,589	729	1,243	2,075
Fifty Plus Club	803	3,301	3,766	338
M.S. Rocketry Club	42	371	146	267
Panther Cub/Club Day Care	196	802	926	72
Youth Ed-Ventures	722	---	490	232

# HESPERIA COMMUNITY SCHOOLS

## AGENCY FUNDS STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2005

ACTIVITY (CONTINUED)	Balance 6/30/04	Receipts	Disbursements	Balance 6/30/05
Journalism	\$ 128	\$ ---	\$ ---	\$ 128
Elementary Library Fund	294	2,332	2,223	403
M.S. Track & Field	350	---	322	28
M.S. Wrestling	115	125	187	53
National Honor Society	327	70	70	327
Wild Joe Cappuccino Store	301	---	---	301
Panther Yearbook	5,021	9,984	13,258	1,747
Ski Club	461	---	---	461
Spanish Club	19	5,214	3,219	2,014
Student Council - 5th and 6th	203	---	---	203
Student Council - 7 <sup>th</sup> and 8th	486	235	---	721
Student Council - H.S.	1,868	90	1,036	922
Student Council - Hesperia C.E.	1	14	---	15
Varsity Club	3,618	357	1,696	2,279
Volleyball Club	98	2,922	964	2,056
Interest Earned	3,550	173	---	3,723
Elementary Checking	690	1,168	---	1,858
Community Ed. Checking	4,813	1,403	1,427	4,789
High School Checking	11,641	1,270	3,719	9,192
Middle School Checking	1,218	1,180	---	2,398
Bus Drivers Checking	129	---	55	74
Boys Freshman Basketball	120	200	320	---
H.S. Library	384	1,453	1,244	593
H.S. Pride	220	---	7	213
H.S. Scholarship Fund	250	500	250	500
H.S. Boys Track	276	---	---	276
H.S. Girls Track	211	---	---	211
Boys Youth Basketball	38	---	---	38
M.S. Resource Room	13	---	13	---
M.S. School Store	292	---	---	292
Extended Day Program	1,071	505	1,374	202
Extended Day Fishing Club	500	---	505	-5
Varsity Wrestling	95	1,452	1,533	14
Industrial Arts	513	1,711	1,676	548
<b>TOTALS</b>	<b>\$ 64,900</b>	<b>\$ 106,254</b>	<b>\$ 109,753</b>	<b>\$ 61,401</b>

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## **STATEMENTS OF BONDED INDEBTEDNESS**

# HESPERIA COMMUNITY SCHOOLS

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## STATEMENT OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2005

<b>Durant Issue Dated November 28, 1998 in the amount of</b>	<b>\$ 129,170</b>
Less:	
Bonds paid in prior years	46,648
Bonds due and paid May 1, 2005	<u>---</u>
<b>Balance outstanding - June 30, 2005</b>	<b><u>\$ 82,522</u></b>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 10,406	\$ 23,329	\$ ---
2006	4.761%	2,818	6,252	42,805
2007	4.761%	2,521	6,548	9,069
2008	4.761%	2,209	6,862	9,071
2009	4.761%	1,882	7,189	9,071
2010	4.761%	1,540	7,531	9,071
2011	4.761%	1,182	7,889	9,071
2012	4.761%	806	8,264	9,070
2013	4.761%	412	8,658	9,070
		<u>\$ 23,776</u>	<u>\$ 82,522</u>	<u>\$ 106,298</u>

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**Issue Dated February 3, 1999 in the amount of**

**\$ 6,895,000**

Less:

Bonds paid in prior years

185,000

Bonds due and paid May 1, 2005

255,000

**Balance outstanding - June 30, 2005**

**\$ 6,455,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006	4.05%	\$ 295,209	\$ 265,000	\$ 560,209
2007	4.15%	284,033	280,000	564,033
2008	4.20%	271,922	300,000	571,922
2009	4.30%	258,850	315,000	573,850
2010	4.40%	244,708	335,000	579,708
2011	4.45%	229,661	345,000	574,661
2012	4.50%	214,222	345,000	559,222
2013	4.55%	198,725	340,000	538,725
2014	4.60%	183,170	340,000	523,170
2015	4.65%	167,561	335,000	502,561
2016	4.70%	151,900	335,000	486,900
2017	4.75%	136,190	330,000	466,190
2018	4.80%	120,433	330,000	450,433
2019	4.85%	104,631	325,000	429,631
2020	5.00%	88,625	325,000	413,625
2021	5.00%	72,500	320,000	392,500
2022	5.00%	56,375	325,000	381,375
2023	5.00%	40,125	325,000	365,125
2024	5.00%	24,000	320,000	344,000
2025	5.00%	8,000	320,000	328,000
		<u>\$ 3,150,840</u>	<u>\$ 6,455,000</u>	<u>\$ 9,605,840</u>

**FEDERAL FINANCIAL ASSISTANCE**

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# HESPERIA COMMUNITY SCHOOLS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2005

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education:			
- Title I 2003-04 Carry-over	*84.010	415300304	\$ 56,416
- Title I 2004-05	*84.010	515300405	290,154
- Title I 2003-04	*84.010	415300304	256,677
- Title V	84.298	402500304	5,741
- Title V Carry-over	84.298	402500405	3,823
- Adult Basic Education English Literacy	84.002	411205500174	5,000
- Adult Basic Education English Literacy	84.002	511205500174	22,000
- Adult Basic Education English Literacy	84.002	411204500173	21,917
- Adult Basic Education	84.002	41130410564	65,692
- Adult Basic Education	84.002	41130510565	2,342
- Adult Basic Education	84.002	51130510565	58,725
- Comprehensive School Reform	84.332	318700304	172,872
- Comprehensive School Reform	84.332	418700405	181,495
- Title IIA Teacher Training and Recruiting	84.367	405200304	64,308
- Title IIA Teacher Training and Recruiting - Carry-over	84.367	405200405	18,609
- Title IIA, Teacher Training and Recruiting	84.367	505200405	83,206
- Technology Literacy Challenge	84.318	542900405	7,928
- Technology Literacy Challenge	84.318	342900304	8,711
- Technology Literacy Challenge	84.318	442900304	7,613
Pass Through Newago County ISD:			
- IDEA 94-142 Flow-through	84.027		225,000

### TOTAL U.S. DEPARTMENT OF EDUCATION

\* Designates a major program.



Karl L. Drake, P.C.

# **HESPERIA COMMUNITY SCHOOLS**

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## **SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**

**FISCAL YEAR ENDED JUNE 30, 2005**

<u>Program Title</u>	<u>Federal CFDA Contract Number</u>	<u>Program or Award</u>	<u>Amount</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass Through Oceana County - Schools and Roads	10.665		\$ 11,024
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.550	Various	19,644
- Bonus Commodities	10.550	Various	1,588
Pass Through State Department of Education:			
- National School Lunch Program	10.555	41950,41960 51950,51960 51980	160,557
- Special Breakfast	10.553	51970,41970	54,249
- Special Milk	10.556	41940,51940	1,048
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			

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Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2004	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2005
\$ ---	\$ ---	\$ 11,024	\$ 11,024	\$ ---
---	---	13,821	13,821	---
---	---	1,588	1,588	---
---	---	15,409	15,409	---
---	---	160,557	160,557	---
---	---	54,249	54,249	---
---	---	1,048	1,048	---
---	---	<b>242,287</b>	<b>242,287</b>	---
	<b>\$ 240,125</b>	<b>\$ 1,258,274</b>	<b>\$ 1,139,121</b>	<b>\$ 120,972</b>

# **HESPERIA COMMUNITY SCHOOLS**

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## **FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2005**

### **NOTE 1 - MAJOR PROGRAMS**

The School has one major program - Title I. Total expenditures during the year ended June 30, 2005 were \$327,822.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2005 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2005 are recorded as deferred revenue.

### **NOTE 3 - ANNUAL GRANT REPORTS**

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

### **NOTE 4 - SCHEDULE PREPARATION**

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

### **NOTE 5 - INVENTORY VALUES**

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

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**SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES  
FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

**YEAR ENDED JUNE 30, 2005**

	<u>Financial Statement</u>	<u>Awards Schedule</u>
<b>DEPARTMENT OF EDUCATION GRANTS</b>		
GENERAL FUND		
Title I	\$ 327,822	\$ 327,822
IDEA 94-142 Flow-Through	225,000	225,000
Title V	3,823	3,823
Adult Basic Education	83,268	83,268
Comprehensive School Reform	160,144	160,144
Teacher Training and Recruiting	88,849	88,849
Technology Literacy Challenge	7,928	7,928
TOTAL	<u>896,834</u>	<u>896,834</u>
 <b>DEPARTMENT OF AGRICULTURE GRANTS</b>		
SCHOOL LUNCH FUND		
Commodities	15,409	15,409
Federal Aid	<u>215,854</u>	<u>215,854</u>
SUB-TOTAL	231,263	231,263
 GENERAL FUND		
Schools and Roads	<u>11,024</u>	<u>11,024</u>
TOTAL	<u>242,287</u>	<u>242,287</u>
 <b>GRAND TOTAL</b>	<u><u>\$ 1,139,121</u></u>	<u><u>\$ 1,139,121</u></u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hesperia Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hesperia Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC  
Certified Public Accountant

August 26, 2005

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

Compliance

We have audited the compliance of Hesperia Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Hesperia Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hesperia Community School's management. Our responsibility is to express an opinion on Hesperia Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hesperia Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hesperia Community School's compliance with these requirements.

In our opinion, Hesperia Community School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.



The management of Hesperia Community School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hesperia Community School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, PC  
Certified Public Accountant

August 26, 2005

# **HESPERIA COMMUNITY SCHOOLS**

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## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2005**

### **Summary of Auditor's Results**

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Hesperia Community Schools had one major program - Title I.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

### **Findings Related to the Financial Statement**

NONE

### **Findings and Questioned Costs for Federal Awards**

NONE

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## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2005**

There were no prior audit findings.

**Karl L. Drake, P.C.**  
**Certified Public Accountant**

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August 26, 2005

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan 49421

We have audited the financial statements of Hesperia Community Schools for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. In planning and performing our audit of the financial statements, we considered the School's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of Hesperia Community Schools is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations and to make suggestions to improve upon the existing internal control structure.

#### Financial Overview - District Wide Accounting

This report is the second under the new format of GASB 34. The District-Wide financial statements required under this pronouncement combine the different District funds, and include additional items such as fixed assets, long-term debt, accrued interest, and depreciation.

The statement of net assets presents a school-wide (all fund) view of the district's financial condition at June 30, 2005. Unrestricted net assets under this format were in a deficit position by \$-32,161. This shows that the District is in a very challenging financial condition. The amount of debt outstanding exceeds the depreciated value of the assets, and there are not enough other resources to leave the District in positive financial condition.

#### Financial Overview - Fund Accounting

The total General Fund fund balance decreased by approximately \$249,096 in the fiscal year ended June 30, 2005, ending the year with a balance of \$344,780. This balance is 3.64% of annual revenues. The financial statements for this year include a negative adjustment to fund balance of \$627,446. This was made necessary because of a change in opinion by the Michigan Department of Education regarding accounting for designated revenues. In prior years, excess program designated dollars were carried as a reserved portion of fund balance. Now the amounts must be carried as a liability, thereby reducing your fund balance. It is normally recommended that fund balance be maintained at 10-15% of annual revenues. The School District is not in compliance with this recommendation at this time. The Food Service fund ended the year with a fund balance of \$75,337, which is a reduction from the prior year level by \$20,123. The Debt Service funds ended the year with a balance of \$195,690, which is a reduction of \$100,346 from the prior year.

#### Federal Grant Billing

During this past fiscal year, the federal grants, which are billed through the State of Michigan, were invoiced once during the year, and again at the time of the audit. These revenues total over \$600,000, and can be invoiced as frequently as monthly. They are based on the monies that have been expended. By invoicing either monthly or quarterly, the cash flow position of the District would be improved, limiting the amount of borrowing currently necessary for cash flow.

#### 1995 Debt Service Fund Accounts

Over a year ago, the final payment on the 1995 Debt Obligation was made. At the time of the audit, the 1995 Debt Service bank accounts continued to maintain a balance. These accounts should be closed, and the amounts transferred to the 1999 Debt Service accounts.

#### GASB 40

New GASB (Government Accounting Standards Board) pronouncements are occurring at a record pace. Several of them are not applicable to Hesperia Community Schools. GASB 40 requires the District to revise its investment policy to be in compliance. This revision needed to be approved by June 30, 2005, for the District to be in compliance. The final approval occurred at the July 2005 Board of Education meeting.

#### GASB 46

Statement 46 clarifies sections of GASB 34. It specifically states that governments are not allowed to reserve portions of net assets in the financial statements, unless an external party restricts the net assets. Fund balance designations can still be made on the fund financial statements, but cannot appear on the district-wide financial statements.

#### GASB 47

Statement 47 formalizes the necessary accounting treatment for termination benefits. If early retirement incentives, etc. are offered, or if employees are terminated with future payments due them, the liability for these future obligations must be entered into the accounting records when the agreements are formalized. GASB 47 outlines the details of the timing of the accounting entries.

#### Audit Preparation

Normally the business office staff of Hesperia Community Schools does an outstanding job of preparing for the audit. The detail accounts are reconciled, schedules prepared, grants closed out, etc. This year a significant amount of the normal preparation was not ready when the audit began. This caused delays in completing various portions of the audit. Additional responsibilities were placed on the office staffs this year, which have reduced the amount of time available to devote to general ledger, analysis, and planning.

#### Title I

One of the requirements of Title I is that all funded employees sign a certification verifying the time spent on Title I activities. During this past fiscal year, these certifications were not completed. At the time of the audit, the initial certification was completed, and the District intends to complete them twice a year from this point forward.

#### Food Service Budgeting

During the last fiscal year, several line items in the Food Service fund had expenditures in excess of the budget. If this is going to occur, the budget must be amended to reflect the expenditure increases.

#### Debt Service Budgeting

During the last fiscal year, the District made an interest payment to the School Bond Loan Fund of \$258,417. This payment was not included in the original budget, and the budget was not amended to reflect the expenditure.

### Community Education Deposits

In the normal course of their operations, the Community Education staff collects cash and checks for various school programs. This money should then be deposited regularly (daily, weekly, etc.) at the business office. During this past fiscal year, there were times that the monies were not deposited for over a month. This (according to the Community Education staff) occurred because of the additional responsibilities placed on them this year, and making the deposits timely was not considered a high priority. I recommend that these deposits be made at least weekly, and that procedures be implemented to ensure that this occurs.

### Adult Education Grants

The spending for the federally funded adult education grants (ABE and EL) occurs very late in the allowable time frames for the grants. This is legal and allowable, but not recommended. The spending of the grants consistently throughout the school year is the intent of the programs, and should be the pattern in order to avoid federal and state scrutiny.

### Future Challenges

These are incredibly challenging times for school districts throughout Michigan. Hesperia Community Schools is in a very difficult financial situation. Retirement, health care, transportation, energy costs, etc. are increasing at rapid rates. The State of Michigan has instituted an increase in funding for this year of \$175 per student. This increase, while appreciated, is not enough to cover the increases in retirement and health care alone.

It will be necessary for the District to continue to squeeze expenditures to restore a balanced budget, and return the District to financial stability. At the time of the audit, negotiations were continuing with the various unions representing school employee groups. Settlement of these contracts in a cost efficient manner is essential to the long-term financial health of the District.

The above comments are intended for the use of management and the Hesperia Community School Board of Education. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

We would like to thank Mr. Mansfield, Mrs. Budde and their staff for the cooperation and courtesy extended to us during the conduct of this audit. If there are any questions or concerns regarding this information, please contact our office.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, CPA